<u>Exhibit I</u>

Department of Financial Services

DFS Fines Habib Bank and Its New York Branch $225 Million for Failure to Comply With Laws and Regulations Designed to Combat Money Laundering, Terrorist Financing, and Other Illicit Financial Transactions

Reports and Publications

k and Its New York Branch $225 Million for Failure to Comply With Laws and Regulations Designed to Combat Money Laundering, Terrorist Financing, and Other Illicit Financial Transactions

Financial Services Superintendent Maria T. Vullo Exercises Her Authority to Expand the Scope of an Independent Review and Issues Surrender Order Imposing Conditions for the Orderly Wind Down of Habib's New York Branch

New Consent Order Follows a 2016 Examination Finding Continued Weaknesses in the Bank's Risk Management and Compliance Following a Prior 2015 Consent Order

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September 7, 2017

Financial Services Superintendent Maria T. Vullo today announced that the Department of Financial Services (DFS) has fined Habib Bank and its New York branch $225 million for failure to comply with New York laws and regulations designed to combat money laundering, terrorist financing, and other illicit financial transactions. The new consent order follows a 2016 DFS examination that found weaknesses in the bank's risk management and compliance and the bank's failure to undertake extensive remedial actions required by a 2015 consent order. As a result of DFS's most-recent findings, Superintendent Vullo has exercised her authority provided by the 2015 consent order to expand the scope of an independent review of the bank's operations. In addition, Habib Bank has agreed to surrender its license to operate the New York branch upon fulfillment of conditions outlined in a separate Surrender Order to ensure the orderly wind down of the New York branch.

"DFS will not tolerate inadequate risk and compliance functions that open the door to the financing of terrorist activities that pose a grave threat to the people of this State and the financial system as a whole," said Superintendent Vullo. "The bank has repeatedly been given more than sufficient opportunity to correct its glaring deficiencies, yet it has failed to do so. DFS will not stand by and let Habib Bank sneak out of the United States without holding it accountable for putting the integrity of the financial services industry and the safety of our nation at risk. The terms of this Consent Order and the Surrender Order now agreed to by the bank will ensure that Habib's misconduct will no longer occur on U.S. soil and that DFS will still investigate the bank's prior activities."

The New York branch has continued to fail to comply with a 2006 agreement with the predecessor agency to DFS that arose out of significant deficiencies identified within the bank's compliance with economic sanctions laws and with its anti-money laundering (AML) compliance,

including the Bank Secrecy Act (BSA). Violations of the 2006 agreement and New York Banking law have occurred almost every year since 2006. DFS's actions today ensure that this misconduct will not continue anymore.

A 2015 DFS examination found that Habib Bank's compliance function had deteriorated even further, resulting in a December 2015 consent order that required the branch to undertake extensive remedial actions and engage an independent consultant to conduct a "lookback" of the branch's U.S. dollar clearing transaction activity from October 1, 2014 through March 31, 2015. DFS's most-recent compliance examination, conducted in 2016, determined that the branch should receive the lowest possible rating, a score of "5," due to significant weaknesses in the branch's risk management capabilities. It also found that, despite DFS's repeated criticism of the branch's performance, management had yet to implement effective controls to mitigate and manage BSA/AML and Office of Foreign Assets Control (OFAC) risks, including:

- Insufficient BSA/AML compliance;
- Insufficient compliance training;
- Insufficient customer risk ratings, including insufficient risk-based foreign correspondent due diligence;
- Insufficient documentation for enhanced due diligence customers;
- Insufficient senior management and head office governance, oversight, and documentation;
- Lack of evidence for adequate OFAC and sanctions screening;
- Weaknesses in BSA/AML independent testing and the Branch's audit program, including weaknesses in the internal audit program's rating methodology; and
- Weaknesses in data mapping and integrity.

The new Consent Order requires an expanded "lookback" that requires Habib Bank to expand the scope of the original lookback to cover the additional periods of October 1, 2013 through September 30, 2014 and April 1, 2015 through July 31, 2017. The expanded lookback further requires Habib Bank to continue to engage the independent consultant, previously approved by the Department, to conduct this broadened review, until completion even after the license surrender process is completed.

As set forth in the Consent Order, the DFS recent investigation found, among other misconduct, that Habib Bank:

- Facilitated billions of dollars in transactions with a Saudi private bank, the Al Rajhi Bank, with reported links to al Qaeda, without adequate anti-money laundering and counter-terrorist financing controls;

- Failed to adequately identify customers of the Al Rajhi Bank that might be using the Al Rajhi account at Habib Bank to transfer funds through New York, thus permitting unsafe "nested activity";
- Allowed for at least 13,000 transactions to flow through the New York branch that potentially omitted information adequate to properly screen for prohibited transactions or transactions with sanctioned countries;
- Improperly used a "good guy" list – a list of customers who supposedly presented a low risk of illicit transactions – to permit at least $250 million in transactions without any screening, including transactions by an identified terrorist, an international arms dealer, an Iranian oil tanker, and other potentially sanctioned persons and entities; and
- Granted the request of a customer to cancel an instruction to send funds through the New York Branch to a person who was blocked from using the U.S. financial system, so that the instruction could be resent by intentionally omitting the prohibited party's name.

Habib Bank, headquartered in Karachi, Pakistan, is Pakistan's largest bank, with $1 billion in total revenues in 2016, and $24 billion in total assets. The New York branch has been licensed by DFS since 1978.

A copy of the consent order can be found here.

Contact the Press Office

Contact us by phone:

(212) 709-1691

Contact us by email:

public-affairs@dfs.ny.gov

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State Laws (LBDC)

State Bills & Laws (Senate)

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